



DATE ISSUED: April 27, 2005

REPORT NO.: CCDC-05-11
CCDC-05-05

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council
Docket of May 3, 2005

SUBJECT: South Block Lofts- Amended and Restated Disposition and Development Agreement with OliverMcMillan, LLC & Review of Basic Concept/Schematic Drawings – East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project
(Joint Public Hearing)

REFERENCE: Site Map; Amended & Restated DDA; Basic Concept/Schematic Drawings; 33433 Summary Report; Centre City Development Permit/Variance 2002-51; Summary Tables of KMA Analysis; Environmental Secondary Study

STAFF CONTACT: Eli Sanchez, Senior Project Manager
Brad Richter, Principal Planner

SUMMARY

_____ Issue - Should the Redevelopment Agency:

1. Approve a proposed Amended and Restated Disposition and Development Agreement with OliverMcMillan, LLC.;
2. Certify that the Agency has reviewed and considered the Master Environmental Impact Report and the Secondary Study with respect to the proposed Amended and Restated Disposition and Development Agreement ("Amended and Restated DDA") with OliverMcMillan, LLC.; and
3. Approve the Basic Concept/Schematic Drawings for the proposed project?

And, should the City Council:

1. Approve the proposed Amended and Restated DDA with the Developer;

2. Certify that the City Council has reviewed and considered the MEIR and the Secondary Study with respect to the proposed Amended and Restated DDA and Centre City Development Permit 2002-51 with OliverMcMillan, LLC; and
3. Approve Centre City Development Permit/Variance 2002-51?

Staff Recommendation - That the Redevelopment Agency:

1. Approve a proposed Amended and Restated Disposition and Development Agreement with OliverMcMillan, LLC.;
2. Certify that the Agency has reviewed and considered the Master Environmental Impact Report and the Secondary Study with respect to the proposed Amended and Restated Disposition and Development Agreement ("Amended and Restated DDA") with OliverMcMillan, LLC.; and
3. Approve the Basic Concept/Schematic Drawings for the proposed project.

And, that the City Council:

1. Approve the proposed Amended and Restated DDA with the Developer;
2. Certify that the City Council has reviewed and considered the MEIR and the Secondary Study with respect to the proposed Amended and Restated DDA and Centre City Development Permit 2002-51 with OliverMcMillan, LLC; and
3. Approve Centre City Development Permit/Variance 2002-51.

Centre City Development Corporation Recommendation - On March 23, 2005, the Corporation Board of Directors voted 6-0 (Vilaplana absent) in favor of the staff recommendation.

Centre City Advisory Committee ("CCAC") Recommendation - On February 16, 2005, the CCAC voted 18 in favor and 2 recused, and the PAC voted 17 in favor and 1 recused to support the staff recommendation.

Other Recommendations - None.

Fiscal Impact - The Agency acquired the Agency Parcel for approximately \$176,800 (\$80/sq.ft.). The Developer proposes to purchase the Agency Parcel for \$300 per square-foot (approximately \$663,600). The original Disposition and Development

Agreement ("DDA") provided for a Purchase Price of \$150 per square-foot (approximately \$331,800). The Agency will be responsible to reimburse the Developer for the actual cost of removing burn ash material from the Agency Parcel, not to exceed the sum of \$70,000. An increase from the original DDA amount of \$55,250.

BACKGROUND

The project, subject to the proposed Amended and Restated DDA, advances the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Eliminating blight through the demolition and remediation of contaminated and underutilized properties;
- Assembling smaller parcels to increase residential density;
- Adding to the range of downtown housing opportunities, thereby increasing the downtown residential population; and,
- Contributing to the vision of downtown as a major residential neighborhood.

On May 14, 1997, the Developer submitted a concept package for a proposed entertainment project on property in the Gaslamp Quarter and East Village districts. The proposal was for both the Gaslamp (Borders Books) project and retail/entertainment uses in East Village between Sixth, Seventh, Market, and F streets. CCDC determined that it would be appropriate to divide the project into two components, the Gaslamp Borders Book Project and the East Village Entertainment Project. A DDA with DDR OliverMcMillan for the development of the Gaslamp Borders Books project was entered into by the Agency on November 13, 1998. Borders Books opened in June 2002.

The Developer submitted a revised, more detailed proposal package for the East Village Entertainment Project on September 24, 1998. The Developer proposed to divide the East Village Entertainment Project into three independent components. Components one and two are on the block bounded by Sixth, Seventh, F and G ("northern block") and the third component on the block bounded by Sixth, Seventh, G and Market ("southern block").

The northern block components moved forward without Agency assistance. The historic rehabilitation and expansion of the Bucca di Beppo restaurant building has been completed, and a 103-unit, mixed-use, apartment project is complete and operational.

Component three was originally proposed as a 27,000 square-foot, two-story GameWorks Entertainment Facility ("GameWorks") on a 17,500 square-foot site located at the southeast corner of the southern block ("Site"). The development of GameWorks would have required amendments to the Redevelopment Plan, Community Plan and Centre City

Planned District Ordinance ("PDO"). In addition, the Developer requested the Agency assist with:

- The assembly of the Site by selling the Developer an Agency-owned 5,000 square-foot remnant parcel acquired as part of the Park-It-On-Market parking garage project; and
- The acquisition of a 10,000 square-foot parcel located at the southeast corner of Sixth and "G" streets.

After a diligent but unsuccessful effort to move the GameWorks project forward, the Developer submitted a proposal for the South Block Lofts, a 58-unit, mixed-use apartment project on the GameWorks Site. On February 26, 2003, the Projects Committee directed staff to work with the Developer for the preparation of a DDA for the development and construction of the South Block Lofts project.

The Developer subsequently purchased the 10,000 square-foot parcel on the corner and now owns 15,013 square feet of the proposed 17,225 square-foot Site. On February 12, 2004, the Agency entered into the original DDA that provided for the sale of the 2,212 square-foot Agency Parcel to the Developer for the development and construction of a 58-unit, mixed-use, residential project on the Site.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Developer OliverMcMillan, LLC	Jim McMillan Jim Reynolds	(Privately Owned) James L. McMillan Morgan Dene Oliver William P. Persky
Architect Public Architects	Jim Gates	(Privately Owned) James Brown Jim Gates

PROJECT DESCRIPTION

OliverMcMillan proposes to develop and construct a mixed-use, residential/commercial project on a 17,225 square-foot parcel located on the northwest corner of the southern block. The Developer now owns approximately 15,013 square feet of the northern portion of the Site ("Developer Parcel"). The proposed Site includes an Agency-owned parcel of

approximately 2,212 square feet located on the southern portion of the Site ("Agency Parcel").

The proposed project includes an approximately 100-unit, multi-family project above an approximately 16,500 square-foot, commercial retail space on the ground floor. A three-level, partial subterranean parking facility will provide 101 parking spaces. The total floor area ratio for all uses above ground is 5.9 and the building will be seven stories and approximately 85 feet in height.

In addition to the projects on the northern block, the Developer has completed several projects in the area, including the Gaslamp Theaters, Ralphs Grocery Store, and Horton-Fourth Apartments.

The following is a summary of the project:

Type of housing (condo/rental; single- multi-family)	Multi-family
Total number of units / total square feet	100/ 103,179 sq. ft.
Number of bedrooms/unit (and unit size)	<ul style="list-style-type: none">• 66 "studio lofts"• 13 one-bedroom• 21 two-bedrooms
Parking	106 spaces (1.06/unit)
Stories/Height	7 / 85 feet
Floor Area Ratio/Permitted	5.9 / 6.0
Projected rental rates	Market Rate for all units
Commercial Space	16,500 sq. ft.
Land Area (i.e., full block, half block, or square feet)	17,225 sq. ft.
Project density (in units/acre)	260 units/acre
Number of units demolished	0

Project Budget & Financing - The Developer will be solely responsible for the cost of the assembly of the Developer Parcel and the development and construction of the improvements for the project on and off the Site. The total development cost is approximately \$30,563,800, including land. The Developer proposes to obtain a conventional construction loan and permanent financing for approximately \$21,564,000.

Disposition of Property - The Agency Parcel is a 2,212 square-foot remnant parcel from the land acquisition for the Park-It-On-Market North Garage. The Agency purchased the Site for approximately \$177,000 (\$80/sq.ft.). The Developer agrees to purchase the Agency Parcel for approximately \$663,600 for the development and construction of the project. The Developer would have the right to convert the ownership of the project to condominium ownership housing at any time after completion, subject to all applicable legal requirements pertaining to such conversion.

Participation by Agency - The Agency would sell the Agency Parcel to the Developer in accordance with the Amended and Restated DDA. The Agency would be responsible to reimburse the Developer for the actual cost of removing burn ash material from the Agency Parcel, not to exceed the sum of \$70,000. An increase from the original DDA amount of not to exceed \$55,250.

Proposed Schedule of Performance - The Developer would be required to submit 100% Design Development Drawings to the Agency within 180 days of Agency approval of the DDA. The DDA is currently anticipated to be considered by the Agency on April 12, 2005. The Developer would be required to demonstrate approval of all necessary permits, provide evidence of financing and close escrow for the purchase of the Agency Parcel on or before January 15, 2006, and start construction within 30 days of close of escrow. Completion of construction would be within 18 months of start of construction.

Project Benefits - The Project will eliminate blight through the demolition and remediation of contaminated and under-utilized properties. The assembled Site provides for an increased residential density of the Site and limits vehicular access to the Site to one curb cut on G Street. The Project is consistent with the Centre City PDO, Centre City Redevelopment Plan, and implements CCDC's Five-Year Strategic Plan.

The DDA provides for covenants and conditions to ensure the accomplishment of Agency objectives such as:

- Limitations on the sale, transfer, or assignment of any portion of the Developer's interest in the Site;
- Adherence to an established Scope of Development and Schedule of Performance for development of the Site;
- Implementation by the Developer, on a voluntary basis, of an Equal Opportunity Program;
- The improvement of the street scape along the Site frontage; and
- Conditions for maintenance of the improvements on the Site.

Essential Terms and Conditions

- The Developer to be responsible, at his sole cost and expense, for the development and construction of the proposed improvements on the Site and the public improvements in the public right-of-way as described in the Scope of Development. The estimated total development cost is \$30,563,800, including the cost of land;
- The Developer will be solely responsible for the cost of the assembly of the Developer Parcel and the development and construction of the improvements for the project on and off the Site;
- The Developer would acquire the Agency Parcel in an “as is” condition, with no warranty, expressed or implied by the Agency as to the condition of the soil (or water), its geology, or the presence of known or unknown faults or as to the condition of the improvements. The Agency would sell the Agency Parcel to the Developer for the Purchase Price of \$300/square-foot, approximately \$663,600;
- The Agency will be responsible to reimburse the Developer for the actual cost of removing burn ash material from the Agency Parcel, not to exceed the sum of \$70,000;
- The Developer would have the right to convert the ownership of the project to condominium ownership housing at any time after completion, subject to all applicable legal requirements pertaining to such conversion; and
- Schedule of Performance to provide that:
 - Closing Date for the Agency Parcel, subject to the Developer satisfying all conditions precedent to the close of escrow, on or before January 15, 2006;
 - Developer to commence construction within 30 days after the Agency conveys title to the Agency Parcel to the Developer; and
 - Completion of construction within 18 months of start of construction.

DESIGN REVIEW ANALYSIS

Redevelopment Agency Resolution 2130 established CCDC as the Design Review Board for Centre City Redevelopment projects. The Agency designated the Board as the design review authority for projects which contain over 50 dwelling units and/or 100,000 square feet.

The project Site is located in the East Village District on the southeast corner of Sixth Avenue and G Street. The Site is currently occupied by a surface parking lot. The Site is surrounded by the Buca di Beppo restaurant to the north, one- and two-story commercial buildings to the east, Park-it-on-Market North to the south, and Borders Books store to the west. The Site is zoned Mixed-Use Residential Emphasis, which requires that projects provide at least 80% residential land uses.

The seven-story, 85-foot tall building exhibits a contemporary architecture consisting of large expanses of glass storefronts within the concrete floor slabs. The ground level contains a tall, 18-foot high retail space that fronts on both G Street and Sixth Avenue. The large storefronts, including roll-up glass doors, provide large spaces to accommodate a variety of tenants. Projecting concrete canopies cap this space and the residential entry at the south end of the project. The upper floors are defined by full-height glass storefront systems and projecting balconies. The balcony railings utilize a variety of materials, including galvanized steel frames with wire guardrails on a majority, with yellow colored metal railings on others. The top of the building is capped with a projecting metal awning.

The project exhibits a unique design element on the west elevation, consisting of a large metal (2" x 6" anodized aluminum) framework mounted on the faces of the projecting balconies. Within the open framework will be a series of glass panels, some with art screens applied to them and others consisting of translucent glass, and together they will occupy less than 40% of the screen framework that starts 28 feet above the sidewalk and extends halfway up the top floor. These elements assist in meeting energy calculations for the building while providing a unique, playful design along this street. The art panels are also to be applied on some of the glass windows. Overall, the project provides an attractive, contemporary architecture consistent with the East Village neighborhood.

Variance

The project lies within the Planned District Ordinance's ("PDO") Sun Access Criteria ("the Criteria") overlay zone, which imposes building setbacks from the street on the upper floors of buildings. This overlay zone was removed from most of East Village (south of Market Street) with the Ballpark Amendments in 1999, but a two-block corridor remains between F and Market streets. This overlay zone is proposed to be removed with the Community Plan Update scheduled for adoption later this year. Under the Criteria, a 15-foot setback is required along G Street above a height of 50 feet, while along Sixth Avenue a building envelope (height limit) is defined by a 45-degree angle above 50 feet. However, these setbacks conflict with the City of San Diego Fire Department ("Fire Department") requirements for access, which require that one side of a building be vertical without setbacks up to a height of 90-100 feet. Compliance with both the PDO's Sun Access Criteria and Fire Department provisions would effectively limit the height of projects to 50 feet and, therefore, severely limit the density of projects inconsistent with the Community Plan and PDO for this area (6.0 Floor Area Ratio, or FAR). The project proposes to provide the Fire Department access along Sixth Avenue by having the streetwall rise up to 85 feet without setbacks, but provide setbacks along G Street

(except for at the corner, in order to provide an appropriate “turning” of the building at the corner). Similar variances have been granted to other projects in East Village, including the Market Square Village, G Lofts West and the adjoining Park-It-On-Market garage.

In order to grant the requested variance from the Criteria, the following findings must be made:

1. *There are special circumstances or conditions applying to the land or premises for which the variance is sought that are peculiar to the land or premises and do not apply generally to the land or premises in the neighborhood, and these conditions have not resulted from any act of the applicant after the adoption of the applicable zoning regulations.*

There is a direct conflict between the Centre City PDO Sun Access Criteria and the Fire Department regulations. This situation is unique to the two-block corridor between F Street and Market Street and does not affect the remainder of East Village, including the remainder of the Mixed-Use Residential Emphasis District, all of which contains the FAR of 6.0. The combined effect of the two regulations has the unintended effect of restricting the development potential envisioned for this area under the Centre City Community Plan.

2. *The circumstances or conditions are such that the strict application of the regulations of the Land Development Code would deprive the applicant of reasonable use of the land or premises and the variance granted by the City is the minimum variance that will permit the reasonable use of the land or premises.*

Without the granting of variances along one side of their buildings, projects would not be able to achieve the intended densities in this neighborhood. Because the Criteria only remains in this narrow corridor through the East Village, it adversely impacts potential projects in a manner inconsistent with the rest of this neighborhood. The project has been designed to provide the required fire access along Sixth Avenue, but complies with the stepback requirements along a majority of G Street.

3. *The granting of the variance will be in harmony with the general purpose and intent of the regulations and will not be detrimental to the public health, safety, or welfare.*

The proposed design provides required Fire Department access to maintain fire safety for residents of the project, allows a density appropriate under the Community Plan, and allows a mixed-use project consistent with the housing goals of the Community Plan and the 6.0 FAR permitted for the neighborhood.

4. *The granting of the variance will not adversely affect the applicable land use plan.*

The granting of the variance will provide more needed housing in this neighborhood while minimizing encroachments into the sun access building envelope. The project has been designed to meet the intent of various conflicting regulations consistent with the

Community Plan.

Consistency with Plans - The Community Plan and East Village Focus Plan encourage a diversity of housing types and price ranges. The project provides a mid-rise design of rental apartments at market rates which will add to the diversity of affordable and market-rate apartments and condominiums being constructed in the East Village. The proposed project complies with the goals of the Community Plan and East Village Focus Plan, and meets all applicable standards of the PDO, subject to the granting of the variance.

Housing Impact - The proposed mixed-use, multi-family housing project achieves a 5.9 Floor Area Ratio ("FAR"). The maximum FAR for the Site is 6.0. The project density is 260 units/acre. The project intends to obtain a condominium subdivision map but will initially be operated as market rent apartments. The Developer maintains an option to sell such condominiums in the future in accordance with all regulations affecting such sale. The Developer anticipates that such future sales of the units will be at market rate.

CCDC employed economic consultant, Keyser Marston Associates ("KMA"), to prepare an analysis measuring the impact of restricting 10% and 15% of the proposed Project to Low or Moderate income households. The KMA analysis provided an estimate of the affordability gap assuming both the development of apartments and the eventual sale of units as condominiums as proposed by the Developer.

The KMA analysis reported the estimate of affordability gap at the 10% restricted level for the Project as follows:

- With 55-year rental and sale restrictions to the lower income level at or below 65% Average Median Income ("AMI") the subsidy would be \$2,709,000 plus approximately \$500,000 for future relocation of tenants in the 10 units (Approximately \$320,900/unit); and
- With 55-year rental and sale restrictions to the moderate income level at or below 110% AMI the subsidy would be \$1,874,000 plus approximately \$500,000 for future relocation of tenants in the 10 units (Approximately \$237,400/unit).

The KMA analysis also reported the estimate of affordability gap at the 15% restricted level for the Project as follows:

- With 55-year rental and sale restrictions to the lower income level at or below 65% AMI the subsidy would be \$4,125,000 plus approximately \$750,000 for future relocation of tenants in the 15 units (Approximately \$325,000/unit); and

- With 55-year rental and sale restrictions to the moderate income level at or below 110% AMI to be \$2,781,000 plus approximately \$750,000 for future relocation of tenants in the 15 units (Approximately \$235,400/unit).

Absent these subsidies, the Developer will pay the in-lieu fee per the Inclusionary Housing Ordinance. No units within the Project will be restricted to low/moderate income tenants/owners.

Environmental Impact - Under the 1992 Master Environmental Impact Report ("MEIR") and Final Subsequent Environmental Impact Report ("SEIR"), an Environmental Secondary Study is prepared for all developments in the Centre City area in order to evaluate the project's compliance with the Community Plan and PDO and, therefore, the findings and conclusions of the MEIR and SEIR. Unless the project is found to be out of compliance with those planning documents, no further environmental review is required.

SUMMARY/CONCLUSION

The design of the project is consistent with the Centre City Community Plan and East Village Focus Plan, and complies with all requirements of the Centre City PDO. It provides an attractive architecture program compatible in scale and materials with the surrounding neighborhood; therefore, staff recommends design review approval of the project.

The proposed sale of the Agency Parcel to the Developer for the development and construction of the South Block Lofts will assist in the elimination of blight and the under utilization of the Agency Parcel and results in a greater density of residential development.

The South Block Lofts, developed in accordance with the specific covenants and conditions of the Amended and Restated DDA ensure that the objectives of the Agency are accomplished and provides for an enhanced urban design to stimulate the continued quality development in the East Village Redevelopment District.

Respectfully submitted,

Concurred by:

Eli Sanchez
Senior Project Manager

Peter J. Hall
President

Brad Richter
Principal Planner

Chair & Members of the Redevelopment Agency
Mayor & City Council
Docket of May 3, 2005
Page -12-

Attachment(s):

- A - Site Map
- B - Amended & Restated DDA
- C - Basic Concept/Schematic Drawings
- D - 33433 Summary Report
- E - Centre City Development Permit/Variance 2002-51
- F - Summary Tables of KMA Analysis
- G - Final Environmental Secondary Study